

TERMS OF REFERENCE OF INTERNAL AUDIT FOR CIL AND ITS SUBSIDIARIES.

The terms and conditions for conducting Internal Audit in CIL and its Subsidiary Companies are recommended hereunder: -

The Institute of Chartered Accountants of India (ICAI) has issued Standards on Internal Audit (SIA). The Internal Auditors shall follow these Standards to the extent applicable in the matter of Planning, Audit Procedures (Sampling, Analytical Procedures etc.), Documentation and Reporting. The Internal Auditor is expected to apply his judgment to decide the applicability of these standards w.r.t. scope of work and reporting requirements.

A) AUDIT TEAM

- 1) A practicing Chartered Accountant or Cost Accountant or a firm of Chartered Accountants / Cost Accountants registered with the Institute of Chartered Accountants of India / Institute of Cost Accountants of India, appointed to conduct Internal Audit should depute audit team in the HQ/ Area/Units.
- 2) The Audit Team should consist of one qualified CA/CMA and three Inter CA(IPCC) / Inter CMA semi qualified assistants
- 3) Normally the composition of audit team should not be changed. However, under certain circumstances beyond control of the Audit Firm, if the same needs to be changed in any manner, it may be done under intimation to GM/HOD (Internal Audit) of the concerned Company (subject to verification of credentials of the new incumbent to be sent alongwith the intimation with photo proof of qualification, PAN card, Aadhar card and a brief profile). The audit team members should carry Photo ID issued by the Audit Firm duly attested by the CGM/GM of the Area or GM/HOD (Internal Audit) of Subsidiary / CIL(HQ) as applicable.
- 4) The Internal Audit Team should visit place of Audit i.e. HQ/Area/Units every month and conduct Audit at least 18 working days in a month. The attendance of the team members will be maintained by the HQ/Area/Unit.
- 5) The Partner of the firm or a senior Chartered Accountant / Cost Accountant with minimum 5 years post qualification experience should visit at least for two days in a month, to guide the Audit Team and hold discussions with the Management.
- 6) The Audit team will conduct the audit as per Compendium of Standards on Internal Audit issued by The Institute of Chartered Accountants of India and in consultation with Internal Audit Department at HQ / concerned officials at Area/Unit. It is important also to ensure that all aspects are reviewed from

proprietary angle and all expenses, cost and revenue need to be examined from this angle. The policy decisions of the company and procedures adopted should be reviewed and commented upon including changes suggested. The internal controls, delegation of powers are to be regularly monitored for compliance as well as appropriateness. The various management decisions adversely impacting profitability or wastages of resources are to be brought in the report.

- 7) The audit team shall functionally submit their report to CGM/GM/ In-charge of the Area/Unit and in case of Head Quarter to GM/HOD (Internal Audit). It will be important for the internal Auditors to prepare an executive summary of all material points and send a copy of the same along with the report. A copy of the Executive summary will be sent to the Chairman Audit committee of respective company as well as Audit Committee Chairman of the Audit Committee of Coal India Limited for being considered by the Audit committee.

- 8) **Confidential Report:** The Internal auditors are also advised to bring all cases of revenue leakage, excessive or unreasonable expenses, misuse of powers, favours or disfavour having financial impact, fraud on the company or by the company, improper awarding of contracts, theft, unlawful or un professional activity or activity beyond the ethical boundaries or any other aspects without any limitation of any kind where interest of the company or any stake holder is getting adversely affected. Such report will be dealt with in a confidential manner and actions will be initiated without any reference to the source. The secrecy in terms of Official Secret Act will be followed by all concerned about such report and will be shared only on need to know basis. A copy of the confidential Report will be sent to the Chairman Audit committee of respective company as well as Audit Committee Chairman of the Audit Committee of Coal India Limited for being considered by the Audit committee.

- 9) The number of Audit firms may vary according to the number of mines, Manpower, Production and Dispatches of a particular Area/ Project as decided by the management.

B) SCOPE OF WORK

- 1) The audit team will conduct audit concurrently on month to month basis, through out the year, as per the Scope of work.
- 2) The auditor should comment in respect of the following points:
 - (i) Systems & Transactions.

- (ii) 'Report of Exception' on the 25 points, approved by CIL Board and as modified from time to time. This do not limit the scope of Audit and full detailed audit will be undertaken to ensure efficiency, efficacy, effective internal control, risk management, plug leakage of revenue, check excessive expenditure, matters and actions beyond powers or against the interest of the company.
- (iii) Matters contained herein and as may be advised by the company from time to time.
- (iv) Action Taken Report (ATR) on previous Audit Reports. In case any material issue is not getting addressed the internal Auditors shall interact with the CMD and/or relevant Functional directors and General Manager in charge of the respective matter and to prepare their reports and ATR accordingly. Comment and recommendations for improvement in the systems.
- (v) Any other matter, which may be required during the course of audit besides as prescribed in terms of internal Audit standards of ICAI and under Companies Act, 2013. with respect to Internal Audit.

C) AUDIT REPORT

- 1) **Monthly Report:** The Audit teams shall discuss their observation and findings with the CGM/GM/AFM/Associate Finance at Area/Unit after completion of audit for the month before submission of their report. Current month as well as unresolved observation of the previous month/ period shall also be brought before the management. The audit team shall submit their monthly report to the Head of the Area/ Unit and in case of HQ, the report shall be submitted to GM/HOD (Internal Audit). Reports shall be submitted in two sets. Monthly report is to be submitted within fifteen days of the following month. A soft copy of all reports except confidential report shall always be provided.
- 2) **Quarterly Report:** The Auditor shall also submit quarterly report in respect of unresolved observations/ findings with the management's replies/comments and the same shall be submitted to the following and to be submitted within twenty-one days of closure of the quarter:
 - (i) Head of the Area/ Unit.
 - (ii) GM/HOD (Internal Audit) of respective Subsidiary Company.
 - (iii) GM/HOD (Internal Audit) of Coal India Ltd.

A meeting with the top management of the company and all the internal Auditors will be held to discuss a power point presentation to be made by the concerned Auditors' including flow chart based presentation of the issues

every 6 months unless the internal auditors request for an earlier meeting to discuss any important or serious issue. This PPT will form part of the executive summary.

- 3) **Annual Report:** While submitting the report of last quarter of the financial year an annual compliance closure report consisting the unresolved observations/ findings for the previous three quarters shall also be submitted to the management as per above (Column no.2) and to be submitted within twenty-one days of closure of the financial year.
- 4) **Flash Report** should be submitted by the Internal Auditor immediately on detection of any major irregularity in the course of audit, to CGM/GM of the Area/Unit/HQ. and GM/HOD (Internal Audit) of Subsidiary/CIL.
- 5) **Special Report:** In case of persistent Non-compliance with standard Operating Procedures by the management or serious lapses coming in the knowledge of Internal Auditor, the firm should submit a special Report to CMD of the respective subsidiary company and a copy to the Chairman, Coal India Ltd.
- 6) **Report on Fraud:** Internal auditor is to be entrusted with the task and responsibility of ensuring identification of all material or minor frauds as well as large material errors. The audit programme should be so designed so that a clear focus on these aspects and proprietary aspects is given as per best of the ability of the Audit team. All such aspects are to be included in the confidential report to be submitted to Chairperson of the Audit Committee of the concerned company as well as to Chairman Audit Committee, Coal India Limited in a close cover marked as secret. The management will ensure the secrecy of such report and source identification and will fully protect the reporting Auditors. This is as a sequel to the current scenario in the matter of reporting on frauds under The Companies Act 2013 to strengthen the governance process.
- 7) **Reporting on Internal Financial Control (Including Operation Control):** The Internal Auditor should review of adequacy and effective operation of IFC as a part of the present scope of the Internal Audit.
The Internal Auditor should submit a certificate on adequacy and effectiveness of Internal Financial Control (including operation control) alongwith Annual Report.
- 8) The report will also include details of time spent by each person and partners for examining adequacy of fee in future determination. The attendance is not the key aspect. It is the deliverables quality which will be important for continuation of the assignment as the same can be withdrawn by the respective audit committee in case of inadequate quality after providing a chance of being heard. No official at any level will be permitted to impact the independence of the internal Audit.

Any non-cooperation by any specific official or person can also be included in the confidential report and where appropriate in the special report.

Internal Audit Report should be signed by the partner of the Firm mentioning Name of the Partner, Membership No., and Firm Registration No.

D) AUDIT FEE

- 1) Monthly Audit fee ₹1,20,000/- (One lakh twenty thousand) per team shall be paid. Applicable Taxes will be paid extra.
- 2) The audit team consisting of at least one qualified Chartered Accountant / Cost Accountant shall conduct audit for minimum 18 working days in a month and the Partner/senior Chartered Accountant / Cost Accountant of atleast 5 years post qualification experience is required to be present at-least two working days in a month for guiding the team, discussion and finalization of report with the management.
- 3) Travelling Allowance:
 - Partner will be entitled for rail fare by AC 1st class or Air Fare by economy class, Qualified Assistance by AC 2nd Class and Semi-qualified assistant by AC 3rd class on submission of proof of journey, for to and fro journey undertaken once every month. For this purpose, journey will be considered from the firm's nearest office given in the profile to the place of audit. In case of journey by mode other than rail, TA will be limited to entitled class or actual fare, whichever is lower, subject to production of documentary evidence.
- 4) The Company will provide a good quality boarding, Lodging and local transport facility to the Audit Team and Partner.

E) PAYMENT OF INTERNAL AUDIT FEE.

The bills for conducting internal audit and TA bills will be paid on monthly basis based on the attendance of the audit team and submission of its reports.

The paying authority in case of Area / unit will be Area Finance Manager of respective Area/ Project and in case of Head Quarter General Manager (Finance). The bill in duplicate, duly certified by the respective Area/unit and in case of head quarter GM/HOD (Internal Audit) in respect of receipt of reports and attendance, shall be submitted for processing of the bill and payment.

F) GENERAL TERMS AND CONDITIONS.

- 1) The Audit Firm must not sub-contract the work. Only partners of the firm or employees or qualified associates whose bio data is provided at least 7 days in advance can take up the audit. The firms will have to declare that they are not related in any manner whatsoever with any existing or past Audit firm or past and present employee of Coal India or any of its subsidiaries or Directors or any person who is employed with Government of India. Past association upto last 3 years of personal or financial or any other association of any kind now or in last 3 years is prohibited. The firms trying to approach any person connected with the appointment directly or indirectly will be debarred as the selection will be based on 5 minutes presentation by shortlisted firms before the Audit Committee about their proposed approach to audit and about their special expertise and past achievements and their profile and credentials to be informally checked by Coal India special team.
- 2) The audit team will work in strict confidence and will ensure that the information in respect of the operation of the Area/Unit is dealt in strict confidence and secrecy. A Certificate towards maintaining confidentiality is to be provided by each member of the Internal Audit team before commencement of Audit.
- 3) The members of the audit team should be in employment of the firm or professionally engaged for specialized review, in a transparent contract (without financial terms disclosure) to be shared and approved by the respective company based on special expertise or experience of such person.
- 4) If progress/performance of the audit team is not satisfactory, the management reserves the right to terminate the appointment of the Firm with prior notice of one month.
- 5) Dispute/difference, if any, shall be mutually settled with CGM/GM of the Area/unit/HQ. If the dispute could not be settled at CGM/GM level, it will be forwarded to the CMD for decision, which will be final and binding to all concerned.
- 6) The Internal Auditor of the Area must visit the mines in the Area, at least one mine in a month. The company officials will fully facilitate the visit.
- 7) GM/HoD (Internal Audit) of the company shall convene a meeting, in every quarter, of all Internal Auditors of the company to discuss the Audit Report and its compliance.
- 8) The appointment of the Audit Firm will be for the year 2017-18 and may be considered for renewal in the subsequent years 2018-19 and 2019-20 based on satisfactory performance of the Firm. In case of renewal of the appointment in

subsequent year the present place of audit of Area/ Unit may be changed except in case, where the unit is situated in a place where it is not feasible due to place constraint.

9) The Internal Audit Assignment will be terminated and the audit firm will also not be considered for renewal of appointment for Internal Audit in CIL and its subsidiaries, in the following cases:

- (a) If the firm obtains the appointment on the basis of false information/false statement.
- (b) If the firm does not take up audit in terms of appointment letter within one month.
- (c) If the firm does not submit the Audit Report, complete in all respect, in terms of appointment within stipulated time.
- (d) If performance of the firm is not found satisfactory.
- (e) If any fraud / embezzlement is detected subsequently and not reported by Internal Auditor.
- (f) If a firm is appointed as an Internal Auditor in CIL or any of its subsidiaries, neither the firm nor any other firm or partners related in any manner will not be appointed as Internal Auditor in any other company in the CIL group.

Note1: The Company also reserve the right to appoint one of the firm working in the internal audit in a subsidiary as the lead firm who will be also performing the job of consolidating all audit reports including executive summary (excluding confidential report and special report) for the company as a whole and will be awarded in addition to the fee as per terms additional fee of 50% of their fee for the same.

Similarly, one lead internal Auditor will be appointed for CIL as a whole to consolidate the reports of all the consolidated reports of all the companies and will be paid a remuneration equivalent to 50% of the fee as additional fee for consolidation.

Note 2: The criteria for shortlisting will be confidential as these are more of professional judgement based on several parameters as may be decided in consultation with the Audit committee and cannot be questioned by any person.

- Note 3: The term "firm" will also include a proprietary firm and will also have the meaning as assigned to it in the Indian Partnership Act, 1932 and a partnership as defined in the Limited Liability Partnership Act, 2008 with a minimum experience of at least 10 years with having adequate qualified partners and full time qualified employees and Article trainees / semi qualified employees (a self- certified profile will be provided by all firms clearly indicating their manpower, office infrastructure, software, hardware and other resources. The experience details including any specialized expertise may also please be provided as certified by the main partner of the firm who should be available at the time of presentation and who undertake to ensure supervision of the quality of delivery of the assignment throughout the audit. No existing firm of internal auditors or any one related to them in any manner can be appointed.
- Note 4: CIL reserve the right to check the details and to ask for supporting evidence at any time.
- Note 5: Disqualification of Auditor as per section 141(3) of the Companies Act 2013 will be applicable .